

PERAC AUDIT REPORT



Dukes County Contributory Retirement System

JAN. 1, 2000 - DEC. 31, 2003 / PERAC 03: 10-004-14



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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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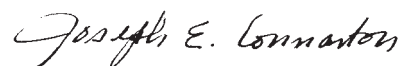
May 10, 2005

The Public Employee Retirement Administration Commission has completed an examination of the Dukes County Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2000 to December 31, 2003. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records and management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiner James Sweeney who conducted this examination and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton
Executive Director



Dukes County Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2003

1. Annual Statement

Based upon inspection of Annual Statements filed by the Dukes County Retirement Board for the audit period, the auditor determined that certain line item amounts contained in the statement do not agree with the detailed supporting schedules. The entries do balance to the general ledger. There are also discrepancies in values reported from one page to another page in the statements. This was also a finding in the last audit.

The Annuity Savings Fund closing balance for 2003 is out of balance with the Membership Supplemental Schedule by \$1,719.03.

Recommendation:

As a sole source of information to third parties, the Annual Statement and supporting schedules must be in agreement allowing readers to make an accurate assessment of the systems financial condition without having to reference the general ledger. Prior to submission of the Annual Statement, a review process should be established to ensure all entries on the Annual Statement agree with the detailed supporting schedules using the PERAC Annual Statement Guide published each year. Differences in custodian provided schedules should be corrected, if needed, and reconciled to the General Ledger prior to submission of the Annual Statement.

An adjusting entry should be made when closing 2004 to bring the Annuity Saving Fund into balance with the Membership Supplemental Schedule.

Board Response:

The adjusting entry has been made and future Annual Statements will be examined more thoroughly before submission.

2. Cash Reconciliation

The County Treasurer as custodian of the Board's funds is performing a monthly cash reconciliation of the Board's checking account. As of December 31, 2003 the reconciliation was not balanced to the general ledger. The reconciliation recorded a deposit in transfer of \$70,000.00 that was not recorded in the general ledger.

Recommendation:

The Board must receive timely monthly cash reconciliations from the Treasurer. The adjusted bank balance must be balanced to the general ledger. The reconciliation must contain a list of outstanding checks. The Board must research any check not cleared within six months, so that the proper voiding and recording of these items can be completed.

Dukes County Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2003

Board Response:

The Treasurer has listed all outstanding checks on a separate sheet of paper for years. In the future the Treasurer will balance the account to the General Ledger. All outstanding checks will be researched by the Treasurer and Board Administrator.

3. Retirees

The auditor sampled retirees to determine if the superannuation calculations are correct and that the payroll matches the monthly allowance. One retiree received a final monthly salary that was \$50,000.00 higher than his previous 14-month average salary. This final month salary was used in calculating the three-year average salary used to determine the superannuation payment amount.

Recommendation:

The member's file at the Board does not contain sufficient information to determine whether this final month's salary is regular compensation or not. Retirement incentives are not regular compensation; in this case the auditor cannot determine whether this final salary was a retirement incentive. The County Treasurer has requested clarifying information from the governmental unit, as of the end of the auditor's fieldwork nothing was provided by the unit. The Board must determine whether this final large increase in salary was a retirement incentive, and if so adjust the pension accordingly.

Board Response:

This office is working the Town of Tisbury and the town lawyer to make documents available to show why the final month salary was increased so dramatically.

Final determination:

After reviewing the member's separation agreement, his final contract was contingent upon his retirement from the town's police department. If he stayed employed he would not receive the new compensation contained in the Employment Contract. Therefore, this retroactive payment of \$50,000 should be considered a retirement or severance incentive and retirement contributions should have not been withheld from this amount. This pay does not qualify as regular compensation under G.L. c. 32 § 1 and 840 CMR 15.03(2)(d) and/or (f). The Board must refund the deductions taken on the \$50,000, recalculate his pension, and recapture the overpayments made to date.

4. Membership

The auditor sampled members' deduction rates to determine that correct percentages are being withheld, and that the additional 2% deduction is withheld from those members who earn over \$30,000 and were hired after January 1, 1979. The sample yielded a 16% error rate in the additional 2% deduction for income over \$30,000. Errors were detected in 40% of the member units.

Dukes County Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2003

Recommendation:

The Board must comply with G.L. c 32 § 22 (1)(b), and PERAC MEMO # 43/1999, defining 2% additional deductions. The Board should initiate a system of obtaining detailed payroll information from each of the units, including the following member information:

1. Name
2. Social Security number or employee number
3. Compensation by type: total, regular, overtime and 2% excess
4. Contribution amount
5. Contribution rate
6. Membership date
7. Any other information deemed appropriate

This data must be routinely reviewed by the Board to ensure proper deductions are being withheld.

A training program should be set up for all payroll personnel, including representatives from outside payroll services. All persons charged with processing retirement deductions should receive copies of any and all memos or notices relating to new regulations or other changes involving eligibility or contribution rates.

Board Response:

The retirement office will continue to work with the treasurers and payroll personnel to get a more consistent method of calculating the extra 2%.

Final Determination

PERAC auditors will follow-up in six (6) months to ensure that the appropriate actions have been taken regarding the audit findings.

Dukes County Retirement System

STATEMENT OF LEDGER ASSETS AND LIABILITIES

**FOR THE FOUR YEAR PERIOD BEGINNING JANUARY 1, 2000
AND ENDING DECEMBER 31, 2003**

| | FOR THE PERIOD ENDING DECEMBER 31, | | | |
|---|---|----------------------------|----------------------------|----------------------------|
| ASSETS | 2003 | 2002 | 2001 | 2000 |
| Cash | \$9,754 | \$4,780 | \$32,362 | \$25,625 |
| Short Term Investments | 2,594,237 | 662,448 | 1,188,791 | 1,268,293 |
| Fixed Income Securities (at book value) | | | | |
| Equities | | | | |
| Pooled Short Term Funds | 45,387 | 37,485 | | |
| Pooled Domestic Equity Funds | | 24,560,496 | 12,394,279 | 13,319,860 |
| Pooled International Equity Funds | | | 361 | |
| Pooled Global Equity Funds | 28,396,787 | | | 450 |
| Pooled Domestic Fixed Income Funds | 60,138 | 60,069 | 11,841,771 | 10,932,634 |
| Pooled International Fixed Income Funds | | | | |
| Pooled Global Fixed Income Funds | | | | |
| Pooled Alternative Investment Funds | | | | |
| Pooled Real Estate Funds | | | | |
| Pooled Domestic Balanced Funds | | | | |
| Pooled International Balanced Funds | | | | |
| PRIT Cash Fund | | | | |
| PRIT Core Fund | 5,372,830 | 4,184,559 | 4,496,192 | 4,939,387 |
| Interest Due and Accrued | 3,465 | 3,473 | 3,486 | 3,541 |
| Accounts Receivable | 1,025,167 | 1,302,377 | 1,075,617 | 1,001,745 |
| Accounts Payable | 0 | 0 | (18) | (89) |
| TOTAL | <u>\$37,507,765</u> | <u>\$30,815,687</u> | <u>\$31,032,842</u> | <u>\$31,491,445</u> |
| FUND BALANCES | | | | |
| Annuity Savings Fund | \$13,520,969 | \$12,100,109 | \$12,213,782 | \$11,179,021 |
| Annuity Reserve Fund | 4,125,483 | 3,898,354 | 2,377,418 | 2,001,840 |
| Pension Fund | 1,347,010 | 1,742,636 | 1,928,926 | 1,930,834 |
| Military Service Fund | 0 | 0 | 0 | 0 |
| Expense Fund | 0 | 0 | 0 | 0 |
| Pension Reserve Fund | 18,514,303 | 13,074,588 | 14,512,715 | 16,379,734 |
| TOTAL | <u>\$37,507,765</u> | <u>\$30,815,687</u> | <u>\$31,032,842</u> | <u>\$31,491,428</u> |

Dukes County Retirement System

STATEMENT OF CHANGES IN FUND BALANCES

**FOR THE FOUR YEAR PERIOD BEGINNING JANUARY 1, 2000
AND ENDING DECEMBER 31, 2003**

| | Annuity Savings Fund | Annuity Reserve Fund | Pension Fund | Military Service Fund | Expense Fund | Pension Reserve Fund | Total All Funds |
|---------------------------------|-------------------------------------|-------------------------------------|---------------------------|--------------------------------------|-------------------------|-------------------------------------|--------------------------------|
| Beginning Balance (2000) | \$10,207,905 | \$1,754,481 | \$1,994,327 | \$0 | \$0 | \$16,585,263 | \$30,541,976 |
| Receipts | 1,755,153 | 51,145 | 1,493,941 | 0 | 157,122 | (209,171) | 3,248,189 |
| Interfund Transfers | (422,444) | 418,802 | 0 | 0 | 0 | 3,643 | 0 |
| Disbursements | <u>(361,593)</u> | <u>(222,589)</u> | <u>(1,557,434)</u> | <u>0</u> | <u>(157,122)</u> | <u>0</u> | <u>(2,298,737)</u> |
| Ending Balance (2000) | 11,179,021 | 2,001,840 | 1,930,834 | 0 | 0 | 16,379,734 | 31,491,428 |
| Receipts | 2,067,878 | 63,536 | 1,747,106 | 0 | 194,862 | (1,857,409) | 2,215,974 |
| Interfund Transfers | (546,914) | 556,524 | 0 | 0 | 0 | (9,610) | 0 |
| Disbursements | <u>(486,203)</u> | <u>(244,482)</u> | <u>(1,749,013)</u> | <u>0</u> | <u>(194,862)</u> | <u>0</u> | <u>(2,674,560)</u> |
| Ending Balance (2001) | 12,213,782 | 2,377,418 | 1,928,926 | 0 | 0 | 14,512,715 | 31,032,842 |
| Receipts | 2,050,453 | 73,927 | 1,828,655 | 0 | 340,215 | (1,450,415) | 2,842,836 |
| Interfund Transfers | (1,778,567) | 1,733,497 | 32,782 | 0 | 0 | 12,288 | 0 |
| Disbursements | <u>(385,560)</u> | <u>(286,488)</u> | <u>(2,047,727)</u> | <u>0</u> | <u>(340,215)</u> | <u>0</u> | <u>(3,059,990)</u> |
| Ending Balance (2002) | 12,100,109 | 3,898,354 | 1,742,636 | 0 | 0 | 13,074,588 | 30,815,687 |
| Receipts | 2,254,754 | 111,558 | 2,108,058 | 0 | 200,234 | 5,437,758 | 10,112,362 |
| Interfund Transfers | (531,891) | 529,934 | 0 | 0 | 0 | 1,957 | (0) |
| Disbursements | <u>(302,002)</u> | <u>(414,363)</u> | <u>(2,503,684)</u> | <u>0</u> | <u>(200,234)</u> | <u>0</u> | <u>(3,420,284)</u> |
| Ending Balance (2003) | <u>\$13,520,969</u> | <u>\$4,125,483</u> | <u>\$1,347,010</u> | <u>\$0</u> | <u>\$0</u> | <u>\$18,514,303</u> | <u>\$37,507,765</u> |

Dukes County Retirement System

STATEMENT OF INCOME

**FOR THE FOUR YEAR PERIOD BEGINNING JANUARY 1, 2000
AND ENDING DECEMBER 31, 2003**

| | FOR THE PERIOD ENDING DECEMBER 31, | | | |
|--|---|---------------------------|---------------------------|---------------------------|
| | 2003 | 2002 | 2001 | 2000 |
| Annuity Savings Fund: | | | | |
| Members Deductions | \$1,922,279 | \$1,798,651 | \$1,627,912 | \$1,458,042 |
| Transfers from other Systems | 145,155 | 21,004 | 189,055 | 58,136 |
| Member Make Up Payments and Redeposits | 67,172 | 68,250 | 48,333 | 32,352 |
| Investment Income Credited to Member Accounts | <u>120,148</u> | <u>162,548</u> | <u>202,577</u> | <u>206,623</u> |
| Sub Total | <u>2,254,754</u> | <u>2,050,453</u> | <u>2,067,878</u> | <u>1,755,153</u> |
| Annuity Reserve Fund: | | | | |
| Investment Income Credited Annuity Reserve Fund | <u>111,558</u> | <u>73,927</u> | <u>63,536</u> | <u>51,145</u> |
| Pension Fund: | | | | |
| 3 (8) (c) Reimbursements from Other Systems | 53,333 | 52,668 | 52,668 | 53,341 |
| Received from Commonwealth for COLA and | | | | |
| Survivor Benefits | 72,236 | 102,137 | 100,203 | 102,180 |
| Pension Fund Appropriation | <u>1,982,489</u> | <u>1,673,850</u> | <u>1,594,235</u> | <u>1,338,420</u> |
| Sub Total | <u>2,108,058</u> | <u>1,828,655</u> | <u>1,747,106</u> | <u>1,493,941</u> |
| Military Service Fund: | | | | |
| Contribution Received from Municipality on Account | | | | |
| of Military Service | 0 | 0 | 0 | 0 |
| Investment Income Credited Military Service Fund | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Sub Total | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Expense Fund: | | | | |
| Expense Fund Appropriation | 0 | 0 | 0 | 0 |
| Investment Income Credited to Expense Fund | <u>200,234</u> | <u>340,215</u> | <u>194,862</u> | <u>157,122</u> |
| Sub Total | <u>200,234</u> | <u>340,215</u> | <u>194,862</u> | <u>157,122</u> |
| Pension Reserve Fund: | | | | |
| Federal Grant Reimbursement | 0 | 2,609 | 0 | 1,493 |
| Pension Reserve Appropriation | 784,106 | 971,903 | 488,474 | 650,634 |
| Interest Not Refunded | 3,566 | 9,726 | 7,189 | 6,751 |
| Excess Investment Income | <u>4,650,086</u> | <u>(2,434,654)</u> | <u>(2,353,072)</u> | <u>(868,049)</u> |
| Sub Total | <u>5,437,758</u> | <u>(1,450,415)</u> | <u>(1,857,409)</u> | <u>(209,171)</u> |
| TOTAL RECEIPTS | <u>\$10,112,362</u> | <u>\$2,842,836</u> | <u>\$2,215,974</u> | <u>\$3,248,189</u> |

Dukes County Retirement System

STATEMENT OF DISBURSEMENTS

**FOR THE FOUR YEAR PERIOD BEGINNING JANUARY 1, 2000
AND ENDING DECEMBER 31, 2003**

| FOR THE PERIOD ENDING DECEMBER 31, | | | | |
|--|---------------------------|---------------------------|---------------------------|---------------------------|
| | 2003 | 2002 | 2001 | 2000 |
| Annuity Savings Fund: | | | | |
| Refunds to Members | \$248,588 | \$317,501 | \$206,340 | \$272,341 |
| Transfers to other Systems | 53,414 | 68,058 | 279,863 | 89,252 |
| Sub Total | <u>302,002</u> | <u>385,560</u> | <u>486,203</u> | <u>361,593</u> |
| Annuity Reserve Fund: | | | | |
| Annuities Paid | 382,530 | 286,488 | 244,482 | 211,884 |
| Option B Refunds | 31,834 | 0 | 0 | 10,705 |
| Sub Total | <u>414,363</u> | <u>286,488</u> | <u>244,482</u> | <u>222,589</u> |
| Pension Fund: | | | | |
| Pensions Paid | | | | |
| Regular Pension Payments | 1,831,560 | 1,358,404 | 1,156,628 | 1,070,104 |
| Survivorship Payments | 61,753 | 63,673 | 54,800 | 47,261 |
| Ordinary Disability Payments | 54,743 | 54,028 | 41,331 | 29,964 |
| Accidental Disability Payments | 323,713 | 276,749 | 279,965 | 203,117 |
| Accidental Death Payments | 142,240 | 158,246 | 155,817 | 157,697 |
| Section 101 Benefits | 21,420 | 25,891 | 26,463 | 25,151 |
| 3 (8) (c) Reimbursements to Other Systems | 68,255 | 110,737 | 34,007 | 24,140 |
| State Reimbursable COLA's Paid | - | - | - | - |
| Chapter 389 Beneficiary Increase Paid | - | - | - | - |
| Sub Total | <u>2,503,684</u> | <u>2,047,727</u> | <u>1,749,013</u> | <u>1,557,434</u> |
| Military Service Fund: | | | | |
| Return to Municipality for Members Who Withdrew Their Funds | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Expense Fund: | | | | |
| Board Member Stipend | 13,950 | 15,000 | 15,000 | 15,000 |
| Salaries | 90,293 | 76,928 | 59,293 | 54,237 |
| Legal Expenses | 3,508 | 843 | 3,881 | 806 |
| Medical Expenses | 0 | | | 0 |
| Travel Expenses | 2,532 | 11,237 | 2,480 | 3,101 |
| Pre-paid rent | | 125,201 | | |
| Administrative Expenses | 12,188 | 26,645 | 32,533 | 13,830 |
| Furniture and Equipment | 1,598 | 32,999 | 23,008 | 501 |
| Fiduciary Insurance | 4,126 | 3,355 | | |
| Management Fees | 37,138 | 28,508 | 41,418 | 69,645 |
| Custodial Fees | | | | - |
| Consultant Fees | 34,900 | 19,500 | 17,250 | - |
| Sub Total | <u>200,234</u> | <u>340,215</u> | <u>194,862</u> | <u>157,122</u> |
| TOTAL DISBURSEMENTS | <u>\$3,420,284</u> | <u>\$3,059,990</u> | <u>\$2,674,560</u> | <u>\$2,298,737</u> |

Dukes County Retirement System

INVESTMENT INCOME

**FOR THE FOUR YEAR PERIOD BEGINNING JANUARY 1, 2000
AND ENDING DECEMBER 31, 2003**

| | FOR THE PERIOD ENDING DECEMBER 31, | | | |
|---|---|-----------------------------|-----------------------------|---------------------------|
| | 2003 | 2002 | 2001 | 2000 |
| Investment Income Received From: | | | | |
| Cash | 28429.05 | 1297.33 | \$1,929 | \$34,332 |
| Short Term Investments | 0 | 42,322 | 30,598 | 0 |
| Fixed Income | 7,438 | 7,438 | 7,438 | 7,438 |
| Equities | 11 | 335 | 36 | 0 |
| Pooled or Mutual Funds | <u>477,790</u> | <u>392,642</u> | <u>330,166</u> | <u>522,537</u> |
| Commission Recapture | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| TOTAL INVESTMENT INCOME | <u>513,667</u> | <u>444,034</u> | <u>370,165</u> | <u>564,306</u> |
| Plus: | | | | |
| Increase in Amortization of Fixed Income Securities | - | - | - | 3,835 |
| Realized Gains | 63,078 | 18,685 | 501,019 | 624,902 |
| Unrealized Gains | 5,182,323 | 2,631,347 | 3,161,451 | 1,730,810 |
| Interest Due and Accrued on Fixed Income Securities - Current Year | <u>3,465</u> | <u>3,473</u> | <u>3,486</u> | <u>3,541</u> |
| Sub Total | <u>5,248,867</u> | <u>2,653,505</u> | <u>3,665,957</u> | <u>2,363,089</u> |
| Less: | | | | |
| Decrease in Amortization of Fixed Income Securities | - | - | - | - |
| Paid Accrued Interest on Fixed Income Securities | 0 | 0 | 0 | 0 |
| Realized Loss | (75,952) | (175,535) | (98,366) | (31,639) |
| Unrealized Loss | (601,082) | (4,776,481) | (5,826,312) | (3,348,894) |
| Custodial Fees Paid | - | - | - | - |
| Consultant Fees Paid | - | - | - | - |
| Management Fees Paid | - | - | - | - |
| Board Member Stipend | - | - | - | - |
| Interest Due and Accrued on Fixed Income Securities - Prior Year | <u>(3,473)</u> | <u>(3,486)</u> | <u>(3,541)</u> | <u>(21)</u> |
| Sub Total | <u>(680,507)</u> | <u>(4,955,503)</u> | <u>(5,928,219)</u> | <u>(3,380,554)</u> |
| NET INVESTMENT INCOME | <u>5,082,027</u> | <u>(1,857,963)</u> | <u>(1,892,096)</u> | <u>(453,159)</u> |
| Income Required: | | | | |
| Annuity Savings Fund | 120,148 | 162,548 | 202,577 | 206,623 |
| Annuity Reserve Fund | 111,558 | 73,927 | 63,536 | 51,145 |
| Military Service Fund | 0 | 0 | 0 | 0 |
| Expense Fund | <u>200,234</u> | <u>340,215</u> | <u>194,862</u> | <u>157,122</u> |
| TOTAL INCOME REQUIRED | <u>431,941</u> | <u>576,691</u> | <u>460,976</u> | <u>414,890</u> |
| Net Investment Income | <u>5,082,027</u> | <u>(1,857,963)</u> | <u>(1,892,096)</u> | <u>(453,159)</u> |
| Less: Total Income Required | <u>431,941</u> | <u>576,691</u> | <u>460,976</u> | <u>414,890</u> |
| EXCESS INCOME TO THE PENSION RESERVE FUND | <u>\$4,650,086</u> | <u>(\$2,434,654)</u> | <u>(\$2,353,072)</u> | <u>(\$868,049)</u> |

Dukes County Retirement System

STATEMENT OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2003

| | MARKET VALUE | PERCENTAGE OF TOTAL ASSETS | PERCENTAGE ALLOWED* |
|------------------------------------|----------------------------|----------------------------------|------------------------|
| Cash | \$9,754 | 0.03% | 100 |
| Short Term | 2,594,237 | 7.11% | 100 |
| Fixed Income | | 0.00% | 40 - 80 |
| Equities | | 0.00% | 50 |
| Pooled Short Term Funds | 45,387 | 0.12% | |
| Pooled Global Equity Funds | 28,396,787 | 77.84% | |
| Pooled Domestic Fixed Income Funds | 60,138 | 0.16% | |
| Pooled Real Estate Funds | | 0.00% | 10 |
| PRIT Core Fund | <u>5,372,830</u> | <u>14.73%</u> | 100 |
| GRAND TOTALS | <u>\$36,479,133</u> | <u>100.00%</u> | |

For the year ending December 31, 2003, the rate of return for the investments of the Dukes County Retirement System was 16.65%. For the five year period ending December 31, 2003, the rate of return for the investments of the Dukes County Retirement System averaged 2.63%. For the 19-year period ending December 31, 2003, since PERAC began evaluating the returns of the retirement systems, the rate of return of the investments of the Dukes County Retirement System was 8.53%.

Dukes County Retirement System

SUPPLEMENTARY INVESTMENT REGULATIONS

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2003

The Dukes County Retirement System submitted the following supplementary investment regulations, which were approved by PERAC on:

March 7, 1991

20.03 (1) Equity investments shall not exceed 50% of the total book value of the portfolio at the time of purchase and provided further that domestic equities shall not exceed 40% of the total book value of the portfolio at the time of purchase and international equities shall not exceed 10% of the total book value of the portfolio at the time of purchase.

20.04 (1) United States based corporations and equities of foreign corporations.

20.07 (5) Equity investments shall be made only in securities listed on a United States stock exchange, traded over the counter in the United States, or listed and traded on a foreign exchange.

20.07 (9) Commingled real estate funds shall not exceed 10% of the total book value of the portfolio at the time of purchase.

20.07 (10) A separate account may be used for real estate provided that:

- (a) contract holders do not participate in the selection of personnel responsible for making real estate investments and should this be required, prior to any participation by the board, the board shall consult with PERA to determine the appropriate course of action;
- (b) such personnel retain authority in the decision making process; and
- (c) should an investment in a separate account result in the direct ownership of real estate or debt, such shall be permitted only until such time as divestiture is prudent.

October 16, 1997

20.03(2) At least 40% but no more than 80% of the total portfolio valued at market shall consist of fixed income investments with a maturity of more than one year including Yankee bonds and Eurobonds which shall be limited to 20% of the total fixed income portfolio valued at market.

Dukes County Retirement System

NOTES TO FINANCIAL STATEMENTS

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2003

NOTE 1 - THE SYSTEM

The plan is a contributory defined benefit plan covering all Dukes County Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

Instituted in 1937, the System is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws. Membership in the plan is mandatory immediately upon the commencement of employment for all permanent, full-time employees.

The system provides for retirement allowance benefits up to a maximum of 80% of a member's highest three year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65 (for certain hazardous duty and public safety positions, normal retirement is at age 55).

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The differential between the total retirement benefit and the annuity is the pension. The average retirement benefit is approximately 75 - 85% pension and 15 - 25% annuity.

Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Members joining the retirement system after January 1, 1979 must contribute an additional 2% on regular compensation earned at a rate in excess of \$30,000. The percentage rate is keyed to the date upon which an employee's membership commences. These deductions are deposited in the Annuity Savings Fund and earn interest at a rate determined by the Executive Director of PERAC according to statute. When a member's retirement becomes effective, his/her deductions and related interest are transferred to the Annuity Reserve Fund. Any cost-of-living adjustment granted between 1981 and 1997 and any increase in other benefits imposed by state law during that period are borne by the state.

The pension portion of any retirement benefit is paid from the Pension Fund of the System. The governmental unit employing the member must annually appropriate and contribute the amount of current year pension payments as indicated on the most recent funding schedule as approved by PERAC's Actuary. Until recently, retirement systems were paying only the actual retirement

Dukes County Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2003

benefits that were due each year. Systems had no statutory authorization to put aside any money for the future benefits of employees who are now working. Large unfunded liabilities resulted from operating upon this pay-as-you-go basis. In 1977, legislation authorized local governments to appropriate funds to meet future pension obligations.

In 1983, additional legislation was passed requiring the transfer of investment earnings (in excess of the amount credited to member accounts) into the Pension Reserve Fund. These initiatives have significantly reduced the rate of growth of the retirement systems' unfunded liabilities, and in some systems have actually eliminated such liability.

Administrative expenses are funded through investment income of the system.

Members who become permanently and totally disabled for further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent upon several factors including: whether or not the disability is work related, the member's age, years of creditable service, level of compensation, veteran's status, and group classification.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. In addition, depending upon the number of years of creditable service, such employees are entitled to receive either zero (0%) percent, fifty (50%) percent, or one hundred (100%) percent of the regular interest which has accrued upon those deductions. Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Executive Director of Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Voluntary contributions, redeposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

Dukes County Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2003

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Dukes County Retirement System submitted the following supplementary membership regulations, which were approved by PERAC on:

December 26, 1984

1. The Board has determined that part-time permanent, temporary, provisional, temporary provisional, seasonal, or intermittent employee who has worked for 130 days, or its equivalent, within the calendar year and whose base pay is at least \$1500 per year, must become a member of the Dukes County Retirement System. (See amendment April 26, 1993)

Dukes County Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2003

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (CONTINUED)

2. A part-time, part-time permanent, temporary, provisional, temporary provisional, seasonal, or intermittent employee receiving weekly or monthly salaries or wages for prescribed periods of employment, be given creditable service based on actual service rendered, provided that in the case of any such employee whose work is found by the Board to be seasonal in its nature, the Board shall credit as the equivalent of one (1) year of service actual full time service of not less than seven (7) months during any one calendar year.

Definition: A day is to be based on a seven and one-half (7 1/2) hour period of employment in a thirty-seven and one-half (37 1/2) hour week.

3. That cafeteria workers or teacher aides who work a five (5) day week for five (5) hours or more per day shall be considered a full-time employee and must become members in the Dukes County Retirement System.

4. Refunds are to be made to various employee's who have had small amounts deducted from their salary by Treasurers of towns and entered in error upon the records of the Dukes County Retirement System. Such amounts being too small to entitle the person to membership and/or retirement benefits.

5. Treasurers of each town in the Dukes County Retirement System are to be notified not to make retirement deductions unless the individual is employed for a longer period than 130 days and receives a salary of \$1500 or more each year, except for elected officials. (See amendment April 26, 1993)

6. A hearing shall be granted to all applicants for accidental disability prior to a decision of the Board.

The following rules were amended April 26, 1993.

#1. Part-time, provisional, temporary, seasonal or intermittent employees who are regularly employed for an average of at least 20 hours per week, minimum of 520 hours and have completed 6 months of service must become members of the system.

#5. Treasurers of each unit in the Dukes County Retirement System are to be notified not to make retirement deductions unless the individual is to be employed for a longer period than 520 hours or 6 months, except for elected officials.

October 26, 1998

Approval of 74-day notice for board election of December 1998 election.

Dukes County Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2003

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five person Board of Retirement consisting of the County Treasurer who shall be a member ex officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex officio Member: Noreen Mavro Flanders

Appointed Member: Roger Wey Term Expires: 12/31/05

Elected Member: Jeffrey Manter Term Expires: 12/31/04

Elected Member: Shirley I Searle Term Expires: 12/31/04

Appointed Member: Sharon Willoughby Term Expires: 12/31/05

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by at least two members of the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

| | | |
|------------------------|---|--------------|
| Treasurer - Custodian: |) | |
| Ex officio Member: |) | \$10,000,000 |
| Elected Member: |) | MACRS Policy |
| Appointed Member: |) | |
| Staff Employee: |) | |

Dukes County Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2003

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by the Buck Consultants as of January 1, 2003.

| | |
|---|----------------------------|
| The actuarial liability for active members was | \$32,001,217 |
| The actuarial liability for retired members was | <u>31,040,828</u> |
| The total actuarial liability was | 63,042,045 |
| System assets as of that date were | <u>36,978,826</u> |
| The unfunded actuarial liability was | <u>\$26,063,219</u> |
| | |
| The ratio of system's assets to total actuarial liability was | 58.7% |
| As of that date the total covered employee payroll was | \$20,191,180 |

The normal cost for employees on that date was 8.35% of payroll

The normal cost for the employer was 6.36% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 7.75% per annum

Rate of Salary Increase: 5.00% per annum

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2003

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a % of Cov. Payroll ((b-a)/c) |
|--------------------------------|--|--|--------------------------------------|----------------------------|-----------------------------|--|
| 1/1/2003 | \$36,978,826 | \$63,042,045 | \$26,063,219 | 58.7% | \$20,191,180 | 129.08% |
| 1/1/2001 | \$31,491,429 | \$45,304,948 | \$13,813,519 | 69.5% | \$18,408,970 | 75.04% |
| 1/1/1998 | \$21,621,530 | \$36,447,821 | \$14,826,291 | 59.3% | \$14,311,001 | 103.60% |

Dukes County Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2003

NOTE 6 - MEMBERSHIP EXHIBIT

| Retirement in Past Years | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|-------------------------|-------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| Superannuation | 6 | 8 | 5 | 6 | 9 | 5 | 9 | 11 | 35 | 14 |
| Ordinary Disability | 0 | 0 | 2 | 1 | 0 | 0 | 1 | 0 | 0 | 0 |
| Accidental Disability | 1 | 2 | 2 | 0 | 0 | 2 | 1 | 1 | 2 | 0 |
| Total Retirements | 7 | 10 | 9 | 7 | 9 | 7 | 11 | 12 | 37 | 14 |
| Total Retirees, Beneficiaries and Survivors | 127 | 137 | 146 | 144 | 148 | 146 | 155 | 168 | 201 | 211 |
| Total Active Members | 604 | 630 | 624 | 708 | 819 | 686 | 932 | 986 | 955 | 987 |
| Pension Payments | | | | | | | | | | |
| Superannuation | \$600,756 | \$679,106 | \$725,179 | \$772,628 | \$792,202 | \$921,881 | \$1,070,104 | \$1,156,628 | \$1,358,404 | \$1,831,560 |
| Survivor/Beneficiary Payments | 30,936 | 33,958 | 37,648 | 24,764 | 41,341 | 41,104 | 47,261 | 54,800 | 63,673 | 61,753 |
| Ordinary Disability | 26,598 | 18,083 | 18,183 | 29,537 | 31,671 | 15,914 | 29,964 | 41,331 | 54,028 | 54,743 |
| Accidental Disability | 111,482 | 125,742 | 159,947 | 167,589 | 168,706 | 211,591 | 203,117 | 279,965 | 276,749 | 323,713 |
| Other | <u>121,642</u> | <u>98,153</u> | <u>130,110</u> | <u>148,180</u> | <u>137,425</u> | <u>146,095</u> | <u>182,848</u> | <u>182,280</u> | <u>184,136</u> | <u>163,660</u> |
| Total Payments for Year | <u>\$891,414</u> | <u>\$955,042</u> | <u>\$1,071,067</u> | <u>\$1,142,698</u> | <u>\$1,171,345</u> | <u>\$1,336,585</u> | <u>\$1,533,294</u> | <u>\$1,715,005</u> | <u>\$1,936,990</u> | <u>\$2,435,428</u> |

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